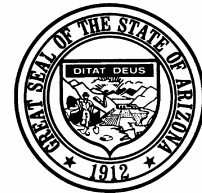


ARIZONA

TAXNEWS



Janet Napolitano, Governor

J. Elliott Hibbs, Director

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MISSION STATEMENT

The purpose of the Arizona Department of Revenue is to promote voluntary compliance with all tax obligations through fair administration, firm enforcement, and prompt and courteous service in a manner that justifies the highest degree of public confidence in our efficiency and integrity.

WE'RE ON THE WEB!

The Arizona Tax News can be viewed on our Internet website:

www.revenue.state.az.us

ARIZONA TAXPAYERS E-FILE AT RECORD PACE

Since January 17, more than 500,000 Arizona taxpayers have filed their Arizona state income tax returns electronically. The department has received more e-filed returns so far this year than all of last year.

Taxpayers expecting a state tax refund who e-file and use direct deposit receive that refund in as little as 7 days. "Electronic filing is a double benefit for taxpayers; faster refunds and reduced costs of government at the Department of Revenue", said Director Elliott Hibbs. "In addition, forty-three percent of Arizona e-filers have already taken advantage of the convenience and security of direct deposit. Reduced costs to process e-file returns and foregoing postage on direct deposit refunds helps offset

some of the budget reductions this year and reduces future needs."

The Department of Revenue encourages all taxpayers to e-file, even if they owe tax, because e-file offers numerous benefits beyond the cost savings.

And, contrary to popular belief, there is no greater chance of being audited when a return is e-filed versus a return that is filed using the traditional paper method.

E-file can be done through an on-line service or a tax professional or by using packaged software available in stores or on the Internet. Listings of tax professionals authorized to e-file, approved software products, Internet services (which includes those who offer free e-filing) and Frequently Asked Questions about e-file are available at www.revenue.state.az.us.

KERR UPDATE

In the March issue of Arizona Tax News the Department provided an update on the Kerr case. Since that issue was published the Court of Appeals issued an amended opinion (www.cofad1.state.az.us/opinionfiles/tx/tx000023.pdf). In the amended opinion the Court of Appeals held that the Arizona individual income tax statutory scheme violated 4 USCA §111 which is a statutory iteration of the constitutional principle of inter-governmental tax immunity.

The starting point for determining Arizona taxable income for individuals is federal adjusted gross income

("FAGI"). Contributions to the retirement system by federal employees are made using income that is subject to federal tax (i.e., the income that is used is part of FAGI). § 414(h) of the Internal Revenue Code provides that state governments may "pick up" mandatory contributions of their employees to the retirement plans which has the effect of excluding the contributions from FAGI. Congress has not chosen to grant similar benefits to federal employee contributions. Since Arizona starts with FAGI, the income used to make the state contributions is

(Continued on page 5)

*** * * REMINDER * * ***

FOR NON-EFT TPT FILERS

**To avoid a delinquency, postmark your
March 2003 TPT return no later than
April 25, 2003 or deliver to DOR no later
than April 29, 2003.**

**January Summary of
General Fund Revenues**

	Fiscal Year January 2003	Total
Individual Income Tax		
Net Collections	\$230,680,405	\$1,209,218,085
Percent Change*	(10.1%)	(5.5%)
Corporate Income Tax		
Net Collections	\$12,733,450	\$164,701,553
Percent Change*	94.1%	(6.0%)
Transaction Privilege, Severance & Use Taxes		
Net Collections	\$296,537,693	\$1,778,534,720
Change *	5.2%	2.2%
Total Big Three Tax Types		
Net Collections	\$539,951,548	\$3,152,454,358
Percent Change*	(0.9%)	(1.3%)

() Decrease from same month last year.

* Percent change from same month last year.

**Individual Income Tax
Individual Income Tax Receipts**

	January 2003	January 2002	% Change
Gross Collections	\$73,610,601	\$97,484,872	(24.5)
Withholding	208,974,170	201,771,003	3.6
Refunds	(16,024,445)	(7,565,530)	111.8
Urban Rev Sharing	(35,879,921)	(35,156,381)	2.1
Net Collections	\$230,680,405	\$256,533,964	(10.1)
			%
Fiscal Year Total	(02/03)	(01/02)	Change
Gross Collections	\$238,664,611	\$267,432,344	(10.8)
Withholding	1,340,358,532	1,368,369,705	(2.0)
Refunds	(118,645,611)	(110,120,032)	7.8
Urban Rev Sharing	(251,159,447)	(246,094,667)	2.1
Net Collections	\$1,209,218,085	\$1,279,587,350	(5.5)

Included in the refund amounts above are refunds relating to the alternative fuel vehicle income tax credit. After offsetting \$10,948 in tax liability, refunds for this credit totaled \$108,200. This amount does not include withholding and estimated payments returned to taxpayers because their liability was covered by the alternative fuel vehicle credit.

TAX CALENDAR

APRIL 2003

Due Date		For Period Ending
15	Income Tax Returns:	12/31/02
	Form 120: Corporation	
	Form 140: Individual	
	Form 141: Fiduciary	
	Form 165: Partnership	
15	Form 120: Corporation with Automatic Extension	6/30/02
15	Form 120S: S Corporation	1/31/02
15	Form 99: Exempt Organization Annual Information Return	11/30/02
15	Form 120ES: Estimated Tax Payment, Corporation	
	First Installment	12/31/03
	Second Installment	10/31/03
	Third Installment	7/31/03
	Fourth Installment	4/30/03
15	Transmitting timely e-filed income tax returns	12/31/02
15	Transmitting timely e-filed Forms 4868	12/31/02
21	Retransmitting rejected e-timely filed income tax returns	12/31/02
21	Retransmitting rejected timely e-filed Forms 4868	12/31/02
21	Form TPT-1: Transaction Privilege Tax:	
	March Monthly Filers and Quarterly Filers	3/31/03
21	Bingo: Financial Reports	3/31/03
21	Luxury Tax: Various Forms	3/31/03
25	EFT Form TPT-1 and Payment:	
	Transaction Privilege Tax:	
	March Monthly Filers	3/31/03
30	1st Quarter Withholding Forms	3/31/03

Withholding Tax Payment Information:

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **exceeds** \$1,500 the employer must make its Arizona withholding payments to the Department of Revenue at the same time as the employer is required to make federal withholding deposits.

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **does not exceed** \$1,500 the employer must make its Arizona withholding payments to the department on a quarterly basis.

The *Arizona TaxNews* is a monthly publication of the Arizona Department of Revenue. Information contained herein is of a general nature and is not designed to address complex issues in detail. Taxpayers requiring information concerning a specific tax matter should contact the appropriate office. This newsletter is available in an alternative format upon request. Subscription information may be obtained from the Publications Unit at 602-542-4672 or toll free from area codes 520 & 928, 1-877-863-0655.

PREVIEW AVAILABLE FOR NEW SYSTEM

BRITS, the Department's reengineering effort, is preparing for Release 1 on December 31, 2003. Included in this release is the Arizona Taxpayer Service Center (AZTSC). This product is a web-based, interactive tool that allows taxpayers and practitioners to communicate with the Department through its website. Those using this capability will be able to file, pay, register, and interact with DOR using a secure PIN and Password. The

Department would like to preview this exciting new technology to the practitioner community and get your feedback. If you would be interested in participating in a focus group presentation, please respond to **waterst@revenue.state.az.us** and we will provide you additional information on a date and location for the presentation.

CORRECTION—CORRECTION CHANGE IN TOWN TAX CODE—TOWN OF QUEEN CREEK

Effective March 1, 2003: The Mayor and Town Council of the Town of Queen Creek passed ordinance 242-03. Ordinance 242-03 clarifies the increase in tax rate for Construction contracting section 8A-415, 8A-416 and 8A-417 from **1% to 2%** instead of the 3% previously announced. The Tax on

Construction Contracting shall be included in code **QC**.

The increase imposed by this ordinance shall not apply to contracts entered into prior to the effective date of the ordinance. **Pre-existing contracts** should be reported using **CODE QC9** at a rate of **1%**.

CHANGE IN TOWN TAX CODE—TOWN OF MIAMI

Effective May 1, 2003: The Mayor and Town Council of the Town of Miami passed ordinance number 285. Ordinance 285 increases the Miami Town Privilege Tax from 1.5% to 2.5%. The tax rate increase affects the following classifications:

Advertising; Amusements; Construction Contracting; Job printing; Manufactured buildings; Timbering & other extraction; Publishing; Hotels; Rental of real property;

Rental of tangible personal property;
Restaurants and Bars; Retail sales;
Telecommunications; Transporting for hire.

This increases imposed by this ordinance shall not apply to contracts entered into prior to the effective date of the ordinance. **Pre-existing contracts** should be reported using **CODE MM9** at a rate of **1.5%**.

CHANGE IN TOWN TAX CODE—CITY OF GLOBE

Effective July 1, 2003: On February 18, 2003 the Mayor and City Council of Globe passed ordinance number 722. Ordinance 722 increases the **Additional Tax on Transient Lodging** from **3% to 4%**. The Additional Tax on Transient Lodging shall be reported using **Code GL3**.

The total city rate for transient lodging is 5.5%, 1.5% which is reported using code **GL** and 4% which is reported using code **GL3**.

ARIZONA TAXNEWS SURVEY

The department is considering a different format to the Arizona TaxNews and changing the publishing frequency. By changing the frequency, we would be able to encompass more department activities and focus on providing information about what you consider valuable, important and useful in your business or practice.

Here is your chance to tell us what you currently like/dislike and would like to see in future issues.

Please fax your completed survey by May 15, 2003 to 602-542-4680 or mail to Arizona TaxNews, PO Box 1286, Phoenix AZ 85001-1286. Or you may complete this on our website at

www.revenue.state.az.us/news_survey.htm

1. On a scale of 1 to 5 (1 being lowest, 5 being highest), how would rate the value for the money of the Arizona TaxNews?
5 4 3 2 1
2. On a scale of 1 to 5 (1 being lowest, 5 being highest), how would rate the value for the information included in the Arizona TaxNews?
5 4 3 2 1
3. How often would you like to receive the Arizona TaxNews?
☐ Same (monthly)
☐ Bi-monthly
☐ Quarterly
4. How would you like to receive the Arizona TaxNews?
☐ Hard copy and mailed only
☐ Electronic copy only
☐ Both
☐ Doesn't matter
5. What kinds of features or articles would you like to see continued in the future? (Check all that apply)
☐ Alternative fuel report
☐ Business Reengineering/Integrated Tax System (BR/ITS) articles
☐ City transaction privilege tax changes
☐ eFile articles
☐ Internal Revenue Service articles
☐ Recently issued rulings and procedures
☐ Seminars/workshops available

- ☐ Statistics on General Fund Revenues and Individual Income Tax Receipts
- ☐ Tax calendar due dates
- ☐ Other _____

6. What new kinds of features or articles would you like to be included in future issues?

- ☐ Department Decisions
- ☐ Index of rulings/procedures
- ☐ Question and answer articles
- ☐ Other _____

7. Is the calendar useful to you?

- ☐ Yes
- ☐ No

If yes, what items are important to you? (Check all that apply)

- ☐ Bingo
- ☐ Corporate
- ☐ eFile
- ☐ Income
- ☐ Luxury tax
- ☐ Transaction Privilege Tax
- ☐ Unclaimed property
- ☐ Other _____

8. Would you prefer the calendar be in another format?

- ☐ Yes
- ☐ No

If yes, what format?

- ☐ More of a calendar look
- ☐ Less line items
- ☐ Other _____

9. What is your profession?

- ☐ Attorney
- ☐ Bookkeeper
- ☐ Small business owner
- ☐ Tax practitioner
- ☐ Other _____

Please include any additional comments you would like to share about the Arizona TaxNews. Thank you for completing this survey. We will publish the results in the June 2003 issue.

Please fax your completed survey to 602-542-4680 or mail to Arizona TaxNews, PO Box 1286, Phoenix AZ 85001-1286.

Kerr Update

(Continued from page 1)

not subjected to Arizona tax while the federal contributions are subjected to Arizona tax.

The Court of Appeals determined that Arizona could/should have made an adjustment to Arizona taxable income by either adding back state contributions or subtracting federal contributions. Since the legislature did neither, the Court concluded that Arizona violated the federal statute: "As we have said, Arizona has been free all along to adjust its statutes to equalize the treatment of the two groups for Arizona income tax purposes. It has chosen not to do so. It thereby violated the intergovernmental tax immunity doctrine as codified in 4 U.S.C. § 111 and interpreted by *Davis* and the cases following it."

The Department of Revenue has filed a petition with the Arizona Supreme Court asking the Court to review and reverse this decision. The

Department has no way of knowing when the Supreme Court will act on the petition nor whether the Supreme Court will agree to hear the case but until the Supreme Court acts on the petition, the decision is not final.

In the meantime the Department has made a protective claim form available. The form can be filled out on line and downloaded from the Department's web site (www.revenue.state.az.us/2002/fed_claimf.pdf), downloaded as a form from the same site (www.revenue.state.az.us/2002/fed_claim.pdf) or can be secured by visiting one of the Department's offices. As noted on the form, the Department intends to assert all applicable statutes of limitations absent a timely filed claim.

2003 IRS NATIONWIDE TAX FORUM INFORMATION

The 2003 IRS Nation-wide Tax Forums offer the tax professional community the latest word directly from IRS officials and the ability to earn Continuing Professional Education (CPE) credits. Traditionally, this event is well attended and last year was no exception. The 2002 attendance at just the west-coast event was over 4,800 and this year the IRS expects more than 5,000 tax professionals. Register and make your hotel reservations early! Don't miss out on this great opportunity to learn about e-file, what's new, and meet with technology exhibitors and representatives from state government.

Dates and locations for this year's IRS Tax Forums:

July 8-10

Sheraton Atlantic City
Two Miss America Way
Atlantic City, NJ 08401
800.325.3535

July 22-24

The Peabody Orlando
9801 International Drive
Orlando, FL 32819
800.732.2639

August 5-7

Hyatt Regency Atlanta
265 Peachtree Street, NE
Atlanta, GA 30303
404.577.1234

August 19-21

Adams Mark St. Louis
Fourth and Chestnut
St. Louis, MO 63102
314.241.7400

September 2-4

Marriott Rivercenter
101 Bowie at Commerce St.
San Antonio, TX 78205
800.228.9290

September 16-18

Rio All Suites Hotel
3700 W. Flamingo
Las Vegas, NV 89103
888.746.6955

Be sure to make your hotel reservations early. Register for the 2003 IRS Nationwide Tax Forums on-line at **www.paintl.com** or call Public Affairs International at **301.593.0200**.

IRS ALLOWS STANDARD MEAL RATE FOR FAMILY DAY CARE PROVIDERS

WASHINGTON – As part of its Industry Issue Resolution Program, the Internal Revenue Service recently issued Revenue Procedure 2003-22, which allows taxpayers engaged in the trade or business of providing family day care, the option of using a standard meal and snack rate to compute their allowable meal expense deduction, in lieu of computing their actual meal expense deduction.

A family day care provider may use the standard meal and snack rates for a maximum of one breakfast, one lunch, one dinner, and three snacks per eligible child per day. The rates apply regardless of whether a family day care provider is reimbursed for its food costs, in whole or in part, under the Child and Adult Food Care Program, or under any other program for a particular meal or snack. A family day care provider who receives reimbursements, however, may only claim an expense deduction; to the extent their computed expense exceeds the amount of their reimbursements.

The allowable rate is the Tier 1 United States Department of Agriculture, Child and Adult Food care Program rate in effect each December 31, of the year preceding the current calendar year. The rates in effect for calendar year 2003 for most of the United States except Alaska and Hawaii (which have different rates) are: Breakfast - \$0.98, Lunch or Supper - \$1.80 and Snacks - \$0.53. Visit Child Care for additional

information and visit the U.S. Department of Agriculture for the current rate. (The USDA will adjust the rate annually on July 1st.)

Taxpayers, who use the standard meal and snack rates to compute their expense deduction, must maintain records to substantiate their computation of the total amount claimed. The records should include the name of each child, dates and hours of attendance in the family day care, and the type and quantity of meals and snacks served. The APPENDIX to Revenue Procedure 2003-22 provides a sample meal and snack log, which satisfies the substantiation requirements.

Revenue Procedure 2003-22 applies to any family day care provider, whether or not they are licensed, registered, or otherwise regulated by the state or locality in which the day care operates.

Eligible children, for whom the standard meal and snack rate may be used, are unemancipated minors receiving day care in the home of the family day care provider. Eligible children do not include children who are full-time or part-time residents in the home in which the childcare is provided or children whose parent(s) or guardians(s) are residents of the same home.

For more information see Revenue Procedure 2003-22.

EROS—YOUR OPINION COUNTS!

In an effort to continually upgrade and improve the service we provide, the department's Office of Electronic Filing (OEF) annually surveys Electronic Return Originators (ERO). "The survey is designed to gather information to understand the e-file experience from the EROs prospective and provide technical assistance where needed", said Donna Muccilli, spokesperson for OEF. "This year the survey will be distributed via e-mail before the 30th of May."

Please verify that the department has your correct e-mail address. We have the address if

you've received our newest publication—**E-News**. **E-News** is Arizona's up-to-the-minute electronic newsletter with tips, helpful hints, and guidance on the Arizona e-file program. If you have not received **E-News**, the department probably does not have your address or your email might be configured not to accept attachments. Please e-mail OEF at **efile@revenue.state.az.us** to update your information.

EMPLOYER POTPOURRI—COMING IN JUNE

The Community OutReach and Education (CORE) section of the Arizona Department of Revenue invites employers and tax professionals to attend the 5th annual Employer Potpourri. This is a rare opportunity to get comprehensive information from representatives of several federal and state agencies. You may also be eligible for Continuing Professional Education Credit (CPE).

Scheduled for June, 2003—check CORE's webpage (www.revenue.state.az.us/seminar.htm) for exact dates and locations, or call 602-542-3062 or toll free from area codes 520 and 928, 1-877-863-0655.

E-Mail Your Questions

If you have a question that you cannot find the answer to, our Technical Assistance personnel may prove useful to you. We will gladly respond to any e-mail technical tax inquiry. All inquiries will be responded to within two working days.

E-mail your question to: TaxpayerAssistance@revenue.state.az.us

In the interest of maintaining confidentiality, DOR cannot respond to inquiries that include a Social Security number, FEIN, TPT or W/H number, or other specific taxpayer identifiers.